

Message Text

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ACTION EB-11

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C O N F I D E N T I A L TEHRAN 3980

E.O. 11652: GDS

TAGS: EGEN, IR

SUBJECT: CURRENT GOI ECONOMIC POLICY THINKING

REF: A. TEHRAN 2262 B. TEHRAN A-78

1. SUMMARY: IN SPITE OF CURRENT INFLATIONARY PRESSURES IN IRANIAN ECONOMY, GOI IS CONSIDERING REMOVAL OF SUBSIDIES ON BASIC FOODSTUFFS. PROBLEM OF FOOD SHORTAGES WILL BE AMELIORATED BY INCREASED IMPORTS, AND IRANIAN FARMERS WILL RECEIVE HIGHER PRICES FOR THEIR PRODUCE WITH INCREASES PASSED ON TO CONSUMERS. REVISED FIFTH DEVELOPMENT PLAN WITH PROPORTIONATE INCREASES IN SPENDING ON INDUSTRIALIZATION EXPECTED TO BE PUBLISHED BY END OF JULY. MORE LAISSEZ-FAIRE ECONOMIC POLICIES SEEM LIKELY. END SUMMARY.

2. AS GOI PARADOXICALLY TRIES TO COPE AT SAME TIME WITH NEW FOUND WEALTH FROM SHARPLY RISING OIL REVENUES AND BOTHERSOME SHORTAGES OF SOME FOOD ITEMS ON OTHER COMMODITIES SUCH AS CEMENT, SEVERAL INDICATIONS OF CURRENT ECONOMIC POLICY THINKING ARE BEGINNING TO EMERGE. IN REMARKS NOT FULLY REPORTED IN PRESS TO NEW CABINET MINISTERS ON APRIL 27, SHAH STATED THAT PRICES
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PAID IRANIAN FARMERS FOR THEIR PRODUCE MUST NOT DIFFER GREATLY

FROM WORLD MARKET LEVELS. FOR IRANIAN FARMERS TO RECEIVE APPRECIABLY LOWER PRICES THAN PRODUCERS ELSEWHERE MEANS THAT "WE OURSELVES HAVE GIVEN THE NATURE OF A COLONIALIST COUNTRY TO OUR COUNTRY."

3. MONARCH'S REMARKS BORNE OUT BY CENTRAL BANK VICE GOVERNOR AHMAD KOOROS IN CONVERSATION WITH EMBOFF ON MARCH 16. KOOROS, WHO PREVIOUSLY HAS STUCK TO LINE THAT GOI WILL COME TO GRIPS WITH INFLATIONARY PROBLEM, ADMITTED CURRENT ANNUAL RATE OF INCREASE IN COST OF LIVING ABOUT 15 PERCENT. HOWEVER, HE CLAIMED GOI IS COMING TO CONCLUSION THAT SUBSIDIZING BASIC COMMODITIES SUCH AS FOODGRAINS, MEAT, SUGAR, ETC, IS NOT THE ANSWER TO CONTROLLING RATE OF PRICE INCREASES. FOOD SUBSIDY PROGRAM CURRENTLY COSTING GOVERNMENT ABOUT RLS 17-20 BILLION PER YEAR (\$250-300MILLION). WHILE REMOVING SUBSIDIES OF COURSE WOULD AGGRAVATE CURRENT SERIOUS INFLATIONARY PROBLEM, GOI POLICY MAKERS COMING AROUND TO VIEW THAT IT PROBABLY WOULD BE BETTER TO GIVE PEOPLE INFLATIONARY DOSE IN "ONE FULL SWOOP." AT SAME TIME IMPORTS OF SCARCE FOODSTUFFS WILL BE INCREASED--KOOROS SPECIFIED RECENT DEAL MADE WITH NEW ZEALAND FOR LARGE PURCHASES OF MEAT. FOOD IMPORTS AT WORLD PRICES PASSED ON TO CONSUMER WOULD BE EXPENSIVE FOR AVERAGE IRANIAN, BUT AT LEAST SHORTAGES SHOULD NO LONGER EXIST.

4. KOOROS DENIED THAT ANY KIND OF INCOMES POLICY RAISING WAGES TO AT LEAST PARTIALLY OFFSET EFFECTS OF HIGHER FOOD PRICES IS BEING CONSIDERED. THERE MIGHT BE DICONTENT IN URBAN AREAS, BUT HE HELD TO VIEW THAT IMPROVED SITUATION OF IRANIAN PEASANT RECEIVING HIGHER PRICES FOR PRODUCE SHOULD BALANCE ANY URBAN DISSATISFACTION OVER HIGHER PRICES. MOREOVER, LOCAL PRICES OF IMPORTED ITEMS NOW BEING REDUCED TO SOME EXTENT BY REDUCTION OF IMPORT REGISTRATION FEE FROM 5.5 PERCENT TO ONE PERCENT (TEHRAN 2262). WHILE THIS MEASURE STILL NOT PASSED BY PARLIAMENT, IT ALREADY IN FACT IMPLEMENTED. CURRENT ANNUAL RATE OF INCREASE IN BANK CREDIT OF 35-40 PERCENT BEING PERMITTED BY CENTRAL BANK IS HEAVILY SKEWED TOWARDS IMPORT FINANCING, AND GOI EXPECTS EXTREMELY HIGH DEMAND FOR PRIVATE SECTOR IMPORTS THIS IRANIAN YEAR.

5. KOOROS ALSO NOTED THAT GOI EXPECTS ANNUAL RATE OF INCREASE IN GROSS NATIONAL PRODUCT TO DROP TO ABOUT 15 PERCENT. MOST RECONFIDENTIAL

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CENT CENTRAL BANK ESTIMATES FOR IRANIAN YEAR 1352 (MARCH 21, 1973-MARCH 20, 1974) SHOWING 32.8 PERCENT REAL RATE OF GROWTH IN GNP AND ESTIMATED 40 PERCENT GROWTH RATE DURING 1353 (SEE MOST RECENT EMBASSY ECONOMIC TRENDS REPORT, TEHRAN A-78 OF MAY 14) REPRESENT AVERAGE EFFECT OF OIL PRICE INCREASES DURING TWO-YEAR PERIOD ON ECONOMY. AT PRESENT TIME GOI NOT ANTICIPATING FURTHER INCREASE IN POSTED PRICE OF PETROLEUM. CURRENT ESTIMATES OF OIL INCOME DURING FIFTH PLAN PERIOD (MARCH 21, 1973 - MARCH 20, 1978) SLIGHTLY

OVER \$100 BILLION, SOME \$11-12 BILLION OF WHICH REPRESENTS ESTIMATED EFFECTS OF THE BALANCING MARGIN (THE PER BARREL FEE WHOSE FUNCTION IS TO GIVE IRAN FINANCIAL BENEFITS EQUIVALENT TO THOSE OF PARTICIPATION AGREEMENTS).

6. PLAN AND BUDGET ORGANIZATION DIRECTOR ABDOL-MAJIDI, WHO HOLDS RANK OF MINISTER OF STATE IN NEW CABINET, TOLD EMBOFFS MAY 15 THAT REVISED FIFTH PLAN EXPECTED TO BE PUBLISHED BY END OF JULY. HE ACKNOWLEDGED THAT SOCIAL WELFARE SPENDING WILL BE INCREASED BUT SAID BIGGEST PROPORTIONATE INCREASES WILL BE IN INDUSTRIALIZATION EXPENDITURES WITH EMPHASIS ON REFINERIES, PETROCHEMICALS, AND TEEL INDUSTRY. THIS DID NOT MEAN NEGLECT OF SOCIAL INFRASTRUCTURE BUT THERE IS CLEAR LIMIT TO SPEED AT WHICH SOCIAL WELFARE PROGRAMS CAN ABSORB ADDITIONAL FUNDS, AND GOI DOES NOT PLAN TURNIRAN INTO "WELFARE STATE."

7. KOOROS CONFIRMED MAJIDI TIMETABLE FOR PUBLICATION OF NEW PLAN, BUT CLAIMED MOST BUREAUCRATIC DECISIONS ALREADY MADE AND HIGH ECONOMIC COUNCIL EXPECTED TO DISCUSS NEW PLAN PROPOSALS AT MEETINGS BEGINNING MAY 20. HE NOTED MAJOR DECISION HIM MUST MAKE IS AMOUNT OF INCREASE IN MILITARY SPENDING. THEN EXPENDITURE PLANS FOR DEVELOPMENT PROGRAMS COULD BE FINALIZED.

8. COMMENT: INCREASING PRICES TO FARMERS PROBABLY IS ONLY SURE WAY OF PROVIDING SUFFICIENT INCENTIVES TO INCREASE PRODUCTION AND APPRECIABLY REDUCE RISING IRANIAN DEPENDENCE ON IMPORTED FOOD. HOWEVER, ABOLITION OF FOOD SUBSIDIES WILL PRESENT SEVERE HARDSHIP TO ALREADY INFLATION-PLAGUED CITY-DWELLERS, WHICH COULD EASILY CAUSE UNREST. KOOROS' SEEMING OFFHAND DISMISSAL OF POSSIBLE SERIOUS URBAN REPERCUSSIONS STRIKES US AS OVERLY OPTIMISTIC. TURN TO MORE LAISSEZ-FAIRE ECONOMIC POLICIES SEEMS TO REPRESENT CURRENT SCHOOL OF THOUGHT AMONG DECISION MAKERS. GOI APPARENTLY HOPES THAT DYNAMICS OF RAPID ECONOMIC GROWTH
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WITH INCREASING JOB OPPORTUNITIES WILL MAKE UP FOR TEMPORARY HARDSHIPS OF INCREASES IN COST OF LIVING.
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